



Maximising Treasury Centralisation with In-house Banking-as-a-Service

With the Covid-19 pandemic augmenting the focus on cash visibility, in-house banks are back in the spotlight. Thanks to cloud technology, support to establish in-house banking is more accessible than ever. This topic was recently the subject of a TMI webinar with Deutsche Bank, which included a case study from cloud-based software company Salesforce.

While in-house banking is not a new concept for treasurers, Covid-19 has sparked renewed interest in the topic. There is a continuous demand placed on treasurers to raise efficiencies, therefore in-house banking and, more broadly, treasury centralisation remains a key subject for corporates. Due to the pandemic, in-house banking has an increasingly relevant role in operational resilience, ensuring that treasurers have a full and centralised view of liquidity, as well as a heightened control

over cash that is particularly important at a time when staff are working from home.

For US-headquartered cloud-based software company Salesforce, it's own in-house bank (IHB) project sprung out of a wider organisational restructuring. Catherine Hill, Director of Treasury at Salesforce, says the business embarked on a company-wide project to move from a centralised reseller model to a multiple resellers in various countries as a result of changing regulatory landscape and company growth.

“This essentially meant moving from a centralised model to a more decentralised environment. From a treasury standpoint we saw this as a potential challenge as it would introduce fragmentation of our cash collections, our foreign exchange exposures and also increase complexity in our intercompany flows,” explains Hill. “An IHB was a viable solution for us to address those issues that we saw coming down the line and avoid having multiple pools of idle cash around the globe. We estimated we would need to execute nearly double the FX [foreign

By **Ben Poole**, Columnist

exchange] transactions, so it helped us manage that and it also enabled us to streamline those intercompany flows.”

Identifying a company-specific approach

An IHB can mean different things to different corporates, and there are many use cases and building blocks that go into the creation of an IHB. This company specificity is one of the drivers for in-house banking-as-a-service (IHBaaS), a cloud-based IHB solution that Deutsche Bank has devised. With a modular approach, IHBaaS permits corporates design an IHB project that can be implemented in a modular manner such that corporates can pick and choose the areas of the solution they require the most to support this. At the same time, they maintain the flexibility to extend the utilisation towards other modules as their demands and priorities evolve .

“Tackling in-house banking is not the same for every company, it really depends on the demand and what the company’s starting point is,” comments Christof Hofmann, Global Head of Corporate and Payment Solutions, Deutsche Bank. “Some companies already manage a number of accounts and just want to get liquidity benefits. For others, account rationalisation is the focus. It is a case-by-case situation.”

At Salesforce, the key goals were to focus on efficient cash consolidation in a way that mitigated the impending fragmentation of cash collections, as well as improving the efficiency of the FX programmes.

Hill recalls: “With the goals defined, the next step was looking at how to implement it. We completed a banking selection project and also system evaluation. In the end, there were more than 25 internal and external stakeholders involved, 20 system interfaces and more than five systems that we were looking at. It was quite a complex process, but critical.”

On the banking request for proposal (RFP), the initial ideal goal for the Salesforce treasury was to reduce its banking footprint and use virtual accounts so that the header IHB account would be the only physical account and all the participants could have virtual

accounts using payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO). During the selection process, however, Hill and her team came to the conclusion that they should take a different approach.

“In reality, we ended up choosing physical bank accounts and physical cash flow,” Hill continues. “That choice differs from use case to use case at the corporate end, but at the time for us the complexity of those solutions didn’t outweigh the benefits that could potentially come with it. POBO and COBO is something we could still re-evaluate in the future.”

Overcoming challenges

A lack of internal support was one barrier to setting up POBO and COBO, which emphasises the importance of educating stakeholders and building a strong business case for the resources required for such a project.

“One particular challenge was that our solution was solving a future problem that hadn’t happened yet,” Hill notes. “We had to try to educate people as to what the future state was going to look like if we did not do this, and then bring them back to reality as to why this type of solution would work.”

The approach to change management is a factor that must not be underestimated. It is not just about describing what it is that needs to be accomplished, but also why it is important to make this change in the first place.

“The moment that you start... something away from them,” says Dirk Kronshage, Director, Treasury Automation Services, Deutsche Bank. “The clearer the message is – around what the future target state is going to look like and the benefits it can and shall bring to the organisation – the



CATHERINE HILL

Director of Treasury, Salesforce

more likely it is that you can rally the organisation, both at a central and a local subsidiary level, to help make the project a success.”

Another challenge that Salesforce found during the implementation of the IHB project was the scale of the resources required to make it a success.

Hill admits: “There was a lot of pressure on our systems team. If I could go back, I would address that right away. With so many parties involved it was very complex, but we were able to get ahead of this by using a treasury consulting partner, PwC, that helped us to manage the end-to-end project.”

Maintaining control

The technology and resource challenge of setting up an IHB is something that corporates that have embarked on such a project, like Salesforce, are well aware of.

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Deutsche Bank's Hofmann explains that this is one of the key pain points that IHBaaS aims to resolve.

"Our IHBaaS proposition gives our clients the toolset to establish an internal IHB in line with the features they specifically require, without investing heavily in their own IT resources," Hofmann explains. "This helps our clients overcome that major hurdle, which is relevant for all client segments, but in particular enables not only the largest multinationals but also mid-sized companies to reap the benefits of a more centralised treasury setup. It includes all the elements you would look for in an in-house bank set-up: POBO and COBO, FX centralisation, and liquidity centralisation. All those elements can be supported, but you don't need to implement the entire solution, it's a flexible modular offering."

According to Kronshage, Deutsche Bank clients are seeing the benefits of rationalising bank accounts to obtain a better handle on external cash flow, and now want to use a similar structure for internal intercompany transactions. "By consolidating external cash flows, treasurers can leverage such platforms more easily to also handle internal flows that occur within the organisation," Kronshage continues. "And from the moment that treasury implements a leaner bank account structure, they are likely to reap some liquidity-related

benefits – almost as a side benefit of such an undertaking."

The prospect of running an IHB as a cloud-based solution may give rise to questions regarding a potential loss of control of such an important component of the treasury. However, Hofmann is keen to reassure treasurers that all decisions and all the authority related to how the treasury works or manages these processes continue to remain with the treasurer and the department as a whole.

"Treasurers can also decide the extent to which they want to use this proposition," Hofmann says. "They might choose to only use virtual accounts and replace the real bank accounts they have. In this context, the service that we provide might simply be translating the information contained in the individual virtual transactions in a way that we can give the client the same kind of reporting they expect with physical accounts – MT940 or CAMT account statements, for example. There is no additional dependency to the bank, the platform is built for corporate treasuries, so they don't need to do this themselves on their own technology footprint."

Of course, the system can offer more elements if required, including liquidity management aspects or interest calculation and settlement, but it is up to the treasurer to decide how to use the cloud-based solution. "Ultimately it is a technology solution that complements

what you have, it's not replacing a treasury management or ERP system, it doesn't perform risk management or any of those other, more complex analytical functions," Hofmann comments. "Rather, it enables you, in an in-house bank scenario, to connect between the standard bank systems and your own existing ERP and treasury systems in a way that is seamless. Therefore, you can operate in a centralised structure without the need to invest in creating this environment. In other words, IHBaaS is a way to lower especially the technology barriers traditionally associated with IHBs."

Reaping the benefits

The benefits of achieving the IHB end state – whether through IHBaaS or otherwise, can deliver multiple benefits. "The project provided an excellent opportunity to evaluate the banking and technology landscape," Hill notes. "It resulted in a net reduction in bank fees and a direct cost reduction relating to reducing our transaction flows. It also gave us the opportunity to build a future-proof platform that reduces the manual workload for the team and ensures a consistent and scalable process for our operating entities." Then there is compliance – our partners in tax were quite pleased with the evaluation of these processes, not least the separation of our operating and financing activities."

Looking ahead, Hill believes Salesforce is through the first stage of the IHB 'life cycle' and the treasury team is now thinking about how the programme can be expanded, both geographically and also in terms of services. "As noted, we didn't utilise the POBO and COBO option initially, but that's something we would definitely be interested in exploring. As the complexity of our bank accounts grows, I'm sure we'll be looking at solutions such as virtual accounts and other ways to reduce and rationalise our accounts – including innovations such as this from Deutsche Bank."

With IHBaaS, corporates have the opportunity to utilise additional modules as their treasury requirements evolve and grow over time. With the accessibility of such a solution now being open to a wider range of corporates, the opportunity to centralise cash and maximise liquidity is in reach for more treasurers than previously was the case. ■



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